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Recommendations of the Board of Auditors

UNITED NATIONS POPULATION FUND

FOLLOW-UP TO THE REPORT OF THE UNITED NATIONS BOARD OF AUDITORS FOR 2002-2003: STATUS OF IMPLEMENTATION OF RECOMMENDATIONS

Report of the Executive Director

1. Pursuant to decision 97/2 of the Executive Board, the Executive Director wishes to bring to the attention of the Board a progress report on the implementation of the recommendations of the United Nations Board of Auditors for UNFPA for the biennium that ended 31 December 2003 (A/59/5/Add.7). In document A/60/387, the Advisory Committee on Administrative and Budgetary Questions reviewed the report of the Board of Auditors and the corresponding report of the Secretary General (A/60/113).

2. The present document provides an update of further actions taken by UNFPA to follow up on the recommendations of the Board of Auditors as contained in document A/59/5/Add.7, noted above. The paragraphs cited in the annex of the present document correspond to those contained in document A/59/5/Add.7. UNFPA also addressed audit issues in the annual report on internal audit and oversight activities in 2004 (DP/FPA/2005/9), submitted to the annual session 2005 of the Executive Board.

Recommendation

3. The Executive Board may wish to take note of the further actions taken or planned in implementing the recommendations of the United Nations Board of Auditors for the biennium 2002-2003, as contained in the annex to the present document (DP/FPA/2006/1).

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Annex

Recommendations of the United Nations Board of Auditors in its report on the accounts of UNFPA for the financial period that ended 31 December 2003

1. In paragraph 33, UNFPA agreed with the recommendation of the Board of Auditors to: (a) consider the disclosure of information in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In this regard, UNFPA should revert to paragraph 6 of General Assembly resolution 57/278, in which the General Assembly requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system, since better disclosure would be a step towards taking a proactive approach to the review requested by the Assembly; (b) consider further improvements to the presentation and disclosure of financial statements; and (c) disseminate improvements made at other United Nations organizations through inter-agency mechanisms such as the High-Level Committee on Management.

UNFPA will continue to review the presentation of the financial statements for the 2004-2005 biennium to determine where compliance with General Assembly resolution 57/278 with regard to governance structures, principles and accountability could be improved, in a harmonized manner among United Nations agencies. Wherever feasible and cost-effective, UNFPA will add elements to the financial statements in the areas noted in the recommendation. UNFPA reviews its financial statements each biennium to determine where improvements in presentation and disclosure may be made. UNFPA also participates in discussions in this area of the High-Level Committee on Management and will implement fully its recommendations.

2. In paragraph 42, UNFPA agreed with the recommendation of the Board of Auditors to: (a) conclude its reconciliation of non-expendable equipment as a matter of urgency in order to ensure that opening balances entered into the Atlas system are correct; and (b) implement controls to ensure that the respective units verify the equipment in their possession on a regular basis, which should then be reconciled with the completed inventory listing.

UNFPA has completed action on this recommendation.

3. In paragraph 51, UNFPA agreed with the recommendation of the Board of Auditors that it take action immediately to ensure the accuracy, completeness and proper control of non-expendable equipment in compliance with its directives.

UNFPA has completed action on this recommendation.

4. In paragraph 57, the Board of Auditors recommended that UNFPA, in conjunction with other organizations in the United Nations system: (a) investigate unreconciled balances with a view to resolving this expeditiously; and (b) develop procedures to resolve future inter-agency balances in a timely manner.

UNFPA has completed action on this recommendation.

5. **In paragraph 62, the Board of Auditors reiterated its recommendation that UNFPA, in conjunction with the Administration of the United Nations and of other funds and programmes, review the funding mechanism for its liability for end-of-service and post-retirement benefits.**

UNFPA will continue to work with the United Nations and the funds and programmes of the United Nations to review the funding mechanism for its liability for end-of-service and post-retirement benefits. In October 2003, UNFPA communicated to UNDP its agreement to participate in a jointly funded consultancy to provide recommendations for the selection of a funding methodology and policy. The primary activity in 2004 was to ensure that the consultancy took place and that all information requirements were met. Due to some delays, the consultancy did not begin until 2005. UNFPA expects the report to be issued in time for the current liability to UNFPA to be reflected in the 2004-2005 financial statements.

6. **In paragraph 66, the Board of Auditors recommended that UNFPA continue to closely monitor hedging transactions and obtain adequate information from UNDP in a timely manner, in order to ensure proper accounting of transactions.**

UNFPA has completed action on this recommendation.

7. **In paragraph 71, the Board of Auditors recommended that UNFPA implement procedures to prevent the pre-financing of projects.**

UNFPA has completed action on this recommendation.

8. **In paragraph 74, UNFPA agreed with the recommendation of the Board of Auditors to implement a formal debt-collection policy to facilitate the effective monitoring and recovery of outstanding receivables.**

UNFPA is developing a debt-collection policy and will ensure that it is communicated to staff and put into practice during 2005. The preparation of the guidelines is in the final stage. The new policy will be submitted for approval to the UNFPA Management Committee by December 2005.

9. **In paragraph 83, UNFPA agreed with the recommendation of the Board of Auditors to intensify its efforts to implement the age analysis using the Atlas system in order to better monitor funds advanced to implementing partners.**

UNFPA has completed action on this recommendation.

10. **In paragraph 87, the Board of Auditors reiterated its recommendation and UNFPA agreed to: (a) include in its monitoring tools details of the appointment of auditors of nationally executed expenditures; and (b) use such details to verify compliance with the criteria set forth in its Policies and Procedures Financial Manual.**

As of 12 October 2005, the details of the auditors are known for 96 per cent of the country offices. All audit plans are entered in the database of nationally executed projects maintained by the Division for Oversight Services, which allows the Division

to monitor compliance with the criteria set forth in its Policies and Procedures Financial Manual.

11. **In paragraph 91, UNFPA agreed with the recommendation of the Board of Auditors to: (a) expedite finalization of its draft guidance on the appointment of project auditors; (b) communicate these guidelines to the country office; and (c) monitor compliance with the directives.**

The United Nations Development Group (UNDG) inter-agency audit task group, of which UNFPA is a member, finalized a technical note on the appointment of project auditors in September 2005. The UNFPA Audit Services Branch will communicate these guidelines to country offices and monitor compliance with the guidelines.

12. **In paragraph 97, the Board of Auditors reiterated its previous recommendation that UNFPA: (a) ensure that standard terms of reference are agreed by the country office and government implementing partners and the auditor of nationally executed expenditure; (b) ensure that the scope and format of the audit is consistent; and (c) compile a mandatory checklist of the standard requirements to assist country offices in adhering to the requirements of the UNFPA Policies and Procedures Financial Manual.**

In September 2005, the UNDG inter-agency audit task group, of which UNFPA is a member, finalized a technical note on the terms of reference for the conduct of audits. The UNFPA Audit Services Branch will communicate the guidelines, applicable from 2006, to country offices. The Audit Services Branch also developed a checklist of standard requirements to assist country offices in monitoring compliance with the requirements and communicated it to country offices on 10 March 2005. The Audit Services Branch will update the checklist for the 2005 audit exercise.

13. **In paragraph 102, the Board of Auditors reiterated its previous recommendation and UNFPA agreed to continue to devote special attention to those country offices that had not submitted their audit plans in time by requesting them to commence with the planning exercise well in advance of the prescribed deadline.**

For 2004, the UNFPA Audit Services Branch sent the request for audit plans earlier in order to give country offices advance notice and time to prepare their audit plans, which were due by 31 October 2004.

14. **In paragraph 107, the Board of Auditors recommended that UNFPA continue to follow up on country offices that fail to comply with the organization's directives on the audit of projects.**

The UNFPA Audit Services Branch sends reminders regularly and has enlisted the assistance of the UNFPA geographical divisions to obtain outstanding project audit reports. Compliance by country offices with national execution and non-governmental organization audit requirements is reflected in the annual performance evaluation of UNFPA Representatives. As of October 2005, 76 per cent of 2004 expenditures had been audited.

15. **In paragraph 112, the Board of Auditors reiterated its previous recommendation that UNFPA include in a consolidated database all country office action plans relating to the audit**

reports on nationally executed expenditure. UNFPA should also evaluate the possibility of using the comprehensive audit and recommendation database system to monitor the status of implementation of audit recommendations in respect of nationally executed projects.

Action plans are entered in a database maintained by the UNFPA Audit Services Branch. UNFPA intends to develop a web-based data system accessible by country offices to monitor the implementation of audit recommendations for nationally executed projects.

16. **In paragraph 117, the Board of Auditors reiterated its recommendation that UNFPA quantify the financial effect of audit qualifications made in respect of nationally executed expenditure and continue to evaluate such qualifications against action plans for reasonableness.**

The quantification of the financial effect of audit qualifications made in respect of national expenditures requires a complex set of data that must be standardized for analysis. UNFPA will pursue this with the implementation of the UNDG guidelines on cash transfer modalities to be implemented in 2006. The design of the web-based data system to monitor the audits of nationally executed projects will enable UNFPA to assess the financial magnitude and the occurrence of audit events to better appraise the risks of national execution.

17. **In paragraph 123, UNFPA agreed with the recommendation of the Board of Auditors to continue its efforts in developing a risk-based database.**

UNFPA has completed action on this recommendation.

18. **In paragraph 128, UNFPA agreed with the recommendation of the Board of Auditors to continue its efforts to obtain and record particulars of actual audit costs for all audits of nationally executed projects.**

UNFPA has completed action on this recommendation.

19. **In paragraph 131, the Board of Auditors encouraged UNFPA to further improve its information and communications technology strategy and have this approved at the earliest possible opportunity.**

The UNFPA Management Committee has discussed the information and communications technology strategy, which will be submitted to the UNFPA Executive Committee for approval. UNFPA expects to complete the strategy by December 2005.

20. **In paragraph 136, UNFPA agreed with the recommendation of the Board of Auditors that the UNFPA internal audit should verify the validity and accuracy of journals posted as a result of the data cleaning exercise.**

In the third quarter of 2005, the UNFPA Audit Services Branch performed an audit of the conversion of data from the integrated management information system (IMIS) to Atlas. UNFPA will issue the report by the end of 2005.

21. **In paragraph 138, UNFPA agreed with the recommendation of the Board of Auditors to identify all changes in the Atlas system since the previous training and provide updated training to users.**

UNFPA has completed action on this recommendation.

22. **In paragraph 143, UNFPA agreed with the recommendation of the Board of Auditors, in consultation with UNDP and UNOPS, to establish service level agreements with the service centres, identifying minimum standard requirements regarding the number of cases handled and establishing the time used to resolve problem cases.**

UNFPA has completed action on this recommendation.

23. **In paragraph 146, the Board of Auditors recommended that UNFPA, in conjunction with UNDP, expand its contingency measures to ensure the ability to continue to provide information system processing capabilities.**

UNFPA has completed action on this recommendation.

24. **In paragraph 152, UNFPA agreed with the recommendation of the Board of Auditors, in conjunction with UNDP and UNOPS, to initiate an independent, comprehensive post-implementation evaluation of the set-up and effectiveness of the built-in internal controls for the Atlas system as soon as possible.**

UNFPA has completed action on this recommendation.

25. **In paragraph 156, UNFPA agreed with the recommendation of the Board of Auditors to compile, approve and disseminate an overall internal control framework to all staff that covers all modules of the Atlas system as a matter of priority.**

UNFPA has completed action on this recommendation.

26. **In paragraph 162, UNFPA agreed with the recommendation of the Board of Auditors, in conjunction with UNDP, to intensify its efforts to resolve the limitations on the general ledger module as a matter of priority.**

UNFPA has completed action on this recommendation.

27. **In paragraph 167, UNFPA agreed with the recommendation of the Board of Auditors to: (a) include appropriate terms and conditions addressing bank reconciliations in the service level agreement with UNDP for treasury services; and (b) closely monitor cash transactions processed by UNDP, on its behalf, until the reconciliations are in place.**

UNFPA has completed action on this recommendation.

28. **In paragraph 171, UNFPA agreed with the recommendation of the Board of Auditors, in conjunction with UNDP, to take immediate steps to rectify the weakness in the Atlas system that allows changes to payee details after the payment voucher has been approved.**

An independent expert undertook a thorough review of the internal controls for Atlas. Atlas partner agencies are currently analysing and discussing the report. Partner agencies are also designing an action plan on how best to respond to the identified weaknesses. The action plan will be coordinated with an eventual software upgrade and wave II enhancements of additional modules. In addition, the UNFPA Finance Branch has prepared an internal control framework that UNFPA senior management will review, for finalization in 2005.

29. **In paragraph 174, the Board of Auditors recommended that UNFPA, in conjunction with UNDP, ensure that payments split between two or more budget holders be approved by both budget controllers before payment takes place.**

UNFPA has completed action on this recommendation.

30. **In paragraph 178, the Board of Auditors recommended that UNFPA, in conjunction with UNDP, expedite its efforts to develop and put into operation all exception/monitoring reports.**

UNFPA has completed action on this recommendation.

31. **In paragraph 181, the Board of Auditors recommended that UNFPA, in conjunction with UNDP, reconsider activation of the audit trail function, taking into account the benefits and effect it will have on the operations of the Atlas system.**

Activation of the full audit trail would result in severe degradation of system performance. Therefore, UNFPA did not recommend activation of the audit trail. Every data table retains a record of the person raising the transaction. UNFPA, together with UNDP and UNOPS, believes that this is sufficient control, but will continue to monitor the situation.

32. **In paragraph 184, UNFPA agreed with the recommendation of the Board of Auditors that, in conjunction with UNDP, and after assessing financial requirements, it implement firewall security at all country offices according to the recommended minimum standards for desktop and network environments.**

UNFPA and UNDP have jointly issued a request for proposal for the development of firewall security in country offices. The implementation, which UNDP leads, has been a gradual process and is done on a case-by-case basis. There is no uniform approach since the specific solution adopted in each country office varies considerably, depending on the local configuration. UNFPA anticipates 75 per cent completion by end of 2005.

33. **In paragraph 187, UNFPA agreed with the recommendation of the Board of Auditors, in conjunction with UNDP, to urgently allocate resources to resolve the shortcomings identified in the Atlas system as soon as possible, in particular those classified as critical.**

UNFPA has completed action on this recommendation.

34. **In paragraph 192, UNFPA agreed with the recommendation of the Board of Auditors that it implement procedures to effectively coordinate all leave activities and accurately monitor the recording of leave to ensure that leave transactions are recorded consistently throughout the organization.**

UNFPA has completed action on this recommendation.

35. **In paragraph 198, UNFPA agreed with the recommendation of the Board of Auditors that it: (a) reduce recruitment lead time; and (b) intensify its efforts to implement workforce and succession planning.**

The Recruitment and Staffing Branch, Division for Human Resources, created a roster of internal and external candidates in order to place UNFPA Representatives and Deputy Representatives in a timely manner. The 2005 workplan of the Division for Human Resources includes an output that focuses on developing a succession management framework. UNFPA has initiated a review of the relevant issues and expects to develop this framework by the first quarter of 2006.

36. **In paragraph 206, UNFPA agreed with the recommendation of the Board of Auditors to: (a) perform yearly performance reviews in a timely manner in order to ensure that relevant and meaningful individual performance plans can be prepared for the following year; (b) revise its timelines for the implementation of the Performance Appraisal Review system; and (c) regularly monitor the performance system to ensure compliance with established deadlines.**

UNFPA has completed action on this recommendation.

37. **In paragraph 212, UNFPA agreed with the Board's recommendation to: (a) issue the contracts for consultants hired under appointment of limited durations (ALDs) prior to the commencement of work; (b) properly retain all contracts; and (c) maintain a current list of all ALDs.**

UNFPA has completed action on this recommendation.

38. **In paragraph 214, UNFPA agreed with the recommendation of the Board of Auditors to enforce compliance with all applicable guidelines for special service agreements in respect of performance and attendance.**

UNFPA has completed action on this recommendation.

39. **In paragraph 216, UNFPA agreed with the recommendation of the Board of Auditors to obtain and file medical clearance certificates before contracting staff on special service agreements as required under the guidelines.**

UNFPA has completed action on this recommendation.

40. **In paragraph 224, UNFPA agreed with the recommendations of the Board of Auditors to: (a) expedite implementation of the expenditures report detailing all expenses incurred for training purposes, including appropriate ratios; (b) expedite the revision of the terms of reference and**

mandate of the Training Advisory Committee; (c) include a representative from the Staff Council in the discussions by the Training Advisory Committee on training needs; (d) approve and implement the work plan for 2004 as soon as possible; and (e) communicate the learning strategy throughout the organization and ensure that the Learning and Training Branch has the necessary resources and mandate to implement the strategy effectively.

UNFPA has completed action on this recommendation.

41. **In paragraph 235, UNFPA agreed with the recommendation of the Board of Auditors to introduce monitoring mechanisms to ensure that project travel falls within the budgeted amount allocated for travel expenditure.**

UNFPA has completed action on this recommendation.

42. **In paragraph 238, UNFPA agreed with the recommendation of the Board of Auditors to prepare travel plans in accordance with its guidelines.**

UNFPA has completed action on this recommendation.

43. **In paragraph 241, the Board of Auditors recommended that UNFPA enforce compliance with its guidelines with regard to the timely submission of travel requests.**

UNFPA has completed action on this recommendation.

44. **In paragraph 246, the Board of Auditors recommended that UNFPA: (a) strengthen monitoring of the timely submission of travel claims by utilizing available reports; (b) follow-up on outstanding travel claims to fully recover all travel advances; and (c) to the extent practicable, refrain from authorizing additional travel advances if previous travel claims have not been submitted.**

UNFPA has completed action on this recommendation.

45. **In paragraph 249, UNFPA agreed with the recommendation of the Board of Auditors that it evaluate future travel plans with a view to achieving the desired outcomes using alternative means, including videoconferencing.**

UNFPA has completed action on this recommendation.

46. **In paragraph 256, UNFPA agreed with the recommendation of the Board of Auditors to test the tools within the Atlas system that are expected to facilitate the implementation of results-based budgeting.**

UNFPA is engaged in discussions to build a prototype based on initial requirements identified for results-based budgeting, with a phased implementation approach. UNFPA has initiated discussions with UNDP and UNICEF on their requirements as well as on a common reporting format.

47. **In paragraph 260, the Board of Auditors encouraged UNFPA to continue with its development of results-based management and results-based budgeting in coordination with other organizations in order to benefit from best practices and lessons learned.**

UNFPA has prepared an operational plan for its transition to results-based budgeting. UNFPA expects to complete the transition by 2008. A fit gap analysis is envisaged to assess the flexibility of the Atlas budgeting module to accommodate budgeting for results.

48. **In paragraph 264, UNFPA agreed with the recommendation of the Board of Auditors that it: (a) consider the impact of the findings of the Board of Auditors regarding the management of the UNDP Treasury in order to address all risks pertaining to UNFPA; (b) develop compensating controls where necessary; and (c) finalize an updated service-level agreement with UNDP setting out each party's responsibilities.**

UNFPA has completed action on this recommendation.

49. **In paragraph 272, UNFPA agreed with the recommendation of the Board of Auditors to: (a) develop an internal audit charter detailing the purpose, authority and responsibility of the internal audit function; and (b) educate personnel about the functions and positive impact of an internal audit function.**

UNFPA plans to review globally its internal control framework according to standards prevailing in the industry. The definition of an internal audit charter is part of this complex undertaking, which UNFPA expects to carry out in 2006.

50. **In paragraph 279, UNFPA agreed with the recommendation of the Board of Auditors to: (a) expedite the filling of vacant posts in the Division for Oversight Services; and (b) improve its audit coverage on the reliability of the accounting and other data leading to the production of financial statements.**

The Division for Oversight Services expects to have a full complement of staff by the first quarter of 2006. Once this has been achieved, the Division will develop a strategy to implement recommendation (b). In 2005, the UNFPA Audit Services Branch carried out an audit of the data transfer from IMIS to Atlas.

51. **In paragraph 286, UNFPA agreed with the recommendation of the Board of Auditors to: (a) follow up systematically on the implementation of internal audit recommendations; (b) ensure that all recommendations and the follow-up actions are recorded in the audit database; and (c) continue to task the internal audit section with the monitoring of the follow-up action of the geographical units.**

UNFPA has completed action on this recommendation.

52. **In paragraph 295, UNFPA agreed with the recommendation of the Board of Auditors to implement procedures to monitor the issuing of progress reports as required in terms of donor agreements.**

UNFPA has completed action on this recommendation.

53. **In paragraph 299, the Board of Auditors reiterated its recommendation that UNFPA country offices complete receipt and inspection reports within three weeks of the delivery of goods and services and forward reports to the headquarters Procurement Unit. The Board further recommended that UNFPA headquarters monitor the submission of receiving and inspection reports and follow up on reports not received.**

UNFPA has completed action on this recommendation.

54. **In paragraph 303, UNFPA agreed with the recommendation of the Board of Auditors that it implement procedures to: (a) monitor and follow up the progress of purchase orders; and (b) document the practices regarding the use of an approved suppliers' list in the UNFPA procurement policies in order to ensure consistency and transparency.**

UNFPA has completed action on this recommendation.

55. **In paragraph 306, UNFPA agreed with the recommendation of the Board of Auditors that it obtain the outstanding fraud and presumptive fraud reports from the country offices and take appropriate action to address the outstanding cases reported.**

UNFPA did not obtain the shortfall in reports for the 2002-2003 biennium. However, it has since strengthened its procedures such that the response rate for the period that ended in December 2004 has significantly improved. As of October 2005, only 14 out of 155 reporting entities had not responded. The Division for Human Resources, with support from the Division for Oversight Services and the Division for Management Services, takes action in cases of outstanding and presumptive fraud. Country offices report all cases of fraud and presumptive fraud to the UNFPA Finance Branch. UNFPA reminds country office staff that these reports are due by year end each year. UNFPA has taken a more disciplined approach to reporting and determining appropriate follow-up action, which the Division for Human Resources coordinates, supported by the Division for Management Services and the Division for Oversight Services. The Division for Human Resources reports the follow-up action to the Oversight Committee.

56. **In paragraph 308, UNFPA agreed with the recommendation of the Board of Auditors to provide full details of all cases of fraud and presumptive fraud.**

UNFPA has completed action on this recommendation.

57. **In paragraph 314, UNFPA agreed with the recommendation of the Board of Auditors, in conjunction with UNDP and UNOPS, to intensify its efforts to finalize the fraud prevention strategy and fraud policy statement.**

UNFPA has completed action on this recommendation.